Advanced Strategic Management

UNIT I CORPORATE MANAGEMENT – AN OVERVIEW

Objective

After reading this unit, you should be able to

- understand the nature and scope of corporate management
- deseribe the concept, nature, process, benefits and pre requisites of corporate planning
- Appreciate the importance of implementation and evaluation aspects of corporate plan
- compare distinct approaches to corporate management
- assess the role of various strategists in corporate management
- identify factors leading to the need of corporate management
- know the differences in corporate management practices adopted by non business organizations

Structure

1.1 INTRODUCTION

Though corporate planning has been widely used in the United States and some other European Countries for the last thirty five years or so, there seems to be scant use of the term "Corporate Management". Corporate management is a broad phenomenon and covers a wide spectrum of activities. In the context of strategic management, the term has three dimensions:

- Corporate planning
- Implementation of corporate plans
- Evaluation and control of corporate plans.

On the academic side, research on corporate management has not taken off in India. However, a few studies may be seen with respect to corporate planning.

1.2 NATURE AND SCOPE OF CORPORATE MANAGEMENT

For the sake of convenience, the concept of corporate management has moved through five paradigm shifts as narrated below:

Adhocism- when the exigency used to force the mangers to take appropriate action to deal with situation. This continued till 1930.

Planned Policy- the great depression forced the planners and thinkers to have a planned policy. Unforeseen incidents and contingencies are to be anticipated.

Environment Strategy Interface- the strategy has to cope with environment. The forces of internal and external environment have created uncertainties. In order to cope with such situation, appropriate strategies are being formulated keeping in mind the competitive advantage.

Corporate Planning- involves moving ahead from environmental appraisal to strategic alternatives and choice. The planning needs to be strategic.

Corporate Management- aspects of implementation and control are also considered in corporate planning process. It is a unified and integrated process to get best results.

Nature of Corporate Management

The following aspects are important in this regard:

(i) It encompasses the entire management process.
(ii) It is concerned with the choice of alternatives, determination of future course of action, mobilization of resources and deployment of resources for attainment of goals.
(iii) It is both short term and long term.
(iv) It is related to all levels of management. Strategic issues, however, are related to top management.
(v) It includes the following phrases:
- Corporate Planning
- Implementation Issues in Corporate Plan
- Evaluation and Control

(vi) It is concerned with coping uncertain future with active intervention.
(vii) It is based on various types of plan viz strategic plan, functional plan, operating plan, organizational plan etc.
(viii) It is all pervasive and integrative.

Scope of Corporate Management

The term corporate management is an extension of the term corporate planning and also includes implementation and control aspects. More specifically, the scope of corporate management is narrated as below: spread over different areas. They are as follows :

(i) Role of top management in corporate governance.
(ii) Code of conduct including audit committee, governance committee etc.
(iii) Competitive scenario for domestic and global markets.
(iv) Competitive scenario for dynamic and global markets.
(v) Market structures and net work externalities.
(vi) Strategic enablers like IT, R & D, knowledge management and innovations etc.
(vii) Corporate social responsibility including ethics, values and social audit.
(viii) Philanthropy as a strategic choice.

Activity I

(i) Discuss the nature of corporate management in Indian context.
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(ii) Discuss the scope of corporate management.
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1.3 CORPORATE PLANNING

Corporate planning is a comprehensive planning process which involves continued formulation of objectives and the guidance of affairs towards their attainment. It is undertaken by top management for the company as a whole on a continuous basis.

Druker defines corporate planning as "a continuous process of making entrepreneurial decisions systematically, and with the best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions, and measuring the results against expectations through organized systematic feedback.

This definition clearly emphasises the relation of corporate planning to strategy.

According to Hussey "Corporate long range planning is not a technique, it is a complete way of running a business. Corporate planning is a way of keeping the company's eyes open.

The following are the **essentials** of corporate planning.

(i) Corporate planning deals with the future of current decisions.
(ii) The process of corporate planning integrates strategic planning with short range operational plans.
(iii) A few authorities use comprehensive corporate planning, strategic planning, long range planning, formal planning, corporate planning etc. as synonymous to each other.
(iv) Corporate planning is viewed as an organizational process resulting in developing strategic intent and action plans to achieve the objectives.

The **object** of corporate planning is to identify new areas of investment and marketing.

The **purpose** of corporate planning process is to formulate the organization's purpose , missions, objectives, goals, policies, programme strategies and major action plans to achieve its objectives.

The **corporate planning process** involves the following steps:

(i) Formulation of strategic intent.
(ii) Environmental appraisal
(iii) Generation of strategic alternatives.
(iv) Evaluation of alternatives.
(v) Decisions in terms of strategy, policies and programmes.

There are many advantages of corporate planning and are as follows :

The following are the **benefits** of corporate planning:

(i) It ensures a rational allocation of resources and improves coordination between various units or divisions.
(ii) With corporate planning, significant improvement in performance is reflected. In US, the percentage improvement in performance was 30-40 percent.
(iii) A formal planning system can help the management in responding to a dynamic environment and in managing a strategically complex organization with limited resources.
(iv) With corporate planning, a sense of making a systematic and critical review of business is developed.
(v) This develops a visionary approach . A habit of forward thinking is encouraged in forward planning.

In India the organizations' corporate planning process could not succeed.

The following can be the **reasons attributed to the failure** of corporate planning in Indian organizations:

(i) Failure to keep the corporate planning system simple.
(ii) Failure to develop awareness about corporate planning process in the organization.
(iii) Corporate planning tries to do all planning itself.
(iv) chief Executive gives planner a low status.
(v) Failure to modify the corporate planning system with the charging conditions in the company.
(vi) Planner has only a part time interest in planning.
(vii) There is conflict between available soft database and manager's need for hard answers.
(viii) Top management becomes so engrossed in current problems that it spends insufficient time on the corporate planning process.

Bhattacharya and Chakravarti have observed some commonalities in instances of successful introduction of corporate planning in Indian companies. A few **prerequisites for success in corporate planning** are as follows:

(i) The chief executive must be **totally committed and involved** in the corporate planning process.
(ii) **Participation** of those executives who would be responsible for implementation must be ensured.
(iii) The process of corporate planning should be introduced on **continuous basis** to cope with ever changing environmental factors.
(iv) The executives must understand that the real purpose of corporate planning is to **provide direction** to the organization.

Activity 2

1) Discuss the nature and process of corporate planning.

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2) Name three to four big companies where corporate planning exercise was initiated in recent years.

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3) Briefly the mention reasons of failure of corporate planning.

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1.4 IMPLEMENTATION OF CORPORATE PLAN

Implementation refers to those objectives which are necessary for achieving the plans already formulated. Quite often, companies having good corporate plans are not successful at market place. The planning commission in India has formulated elaborate plans for poverty alleviation through a number of programmes but it is a well known fact that the achievements in terms of the original goals are far from the targets. It is to be noted that the implementation of strategy is mainly an administrative task based on strategic as well as operational decision making. This activity primarily refers to action and doing. The task of strategy formulation is some what distinct. It is primarily an entrepreneurial activity and this managerial task requires analysis and thinking.

Implementation of corporate strategy requires the analysis of the following aspects:

- Project Implementation
- Procedural Implementation
- Resource Allocation
- Structural Implementation
- Behaviorial Implementation
- Functional Implementation

Any organization which is planning to implement strategies must be aware of the procedural framework within which the plans, programmes and projects have to be approved by government agencies. The regulatory mechanisms for trade, commerce and industry in India span the whole range of legal structure from the constitution of India, the Directive Principles of state policy to the rules and procedures imposed by the implementing authorities at the local level. The requirements of licensing SEB, MRTP, foreign collaboration, labour laws, environmental protection laws etc. are to be seen carefully. The **resource allocation for budget** be based on either of the following methods:

- Strategic Budgeting
- Zero Base Budgeting
- PLC Based Budgeting
- BCG Budgeting

The **total responsibilities** to implement strategies (structural implementation) has to be subdivided as follows:

(i) Defining the major tasks required to implement a strategy.
(ii) Grouping task on the basis of common skill requirements.
(iii) Sub-division of responsibility and delegation of authority to perform tasks.
(iv) Coordination of divided responsibility.
(v) Design and administration of the information system.
(vi) Design and administration of the control and appraisal system.
(vii) Design and administration of the motivation and development system.

(viii) Design and administration of the planning system.

The first four mechanisms will lead to the creation of the structure. The remaining mechanisms are devised to hold and sustain the structure.

The aspects of strategy implementation that have an impact on the behaviour of strategies in implementing the chosen strategies are related to **behaviorial implementation**. In this regard, the following issues are important:

- Leadership
- Corporate Culture
- Corporate politics and use of power
- Personal values and business ethics
- Social Responsibility

Rather than letting strategy implementation suffer due to politics and power games within organizations, strategists have to learn to use them to implement strategies.

Functional implementation is carried out through functional plan and policies in five different functional areas. Operational implementation is performed in four areas for operational effectiveness. The areas are productivity, process, people and pace. The productivity is the measure of the relative amount of input needed to secure a given amount of output. Pace is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation.

1.5 REVIEW AND EVALUATION OF CORPORATE PLAN

Corporate planning cannot be said to be effective unless management monitor how well the planned actions are matching actual achievements as implementation programmes. If they find that the actual performance does not confirm to the planned performance, corrective action is taken to enforce a strategy that is not being followed or modify corporate plan that is not working. Strategic evaluation operates at two levels.

- Strategic Level
- Operational Level

The idea of strategic control is of a relatively recent origin and its techniques are still in an embryonic stage. Four types of strategic controls are premise, implementation, strategic surveillance and special alert control. Operational control consists of setting standards, measuring performance, analysing variance and taking corrective actions. MBO, network techniques, balanced scorecard, key factor rating, bench marking, value chain analysis, systems modeling, responsibility control centers, etc. are the techniques of strategic evaluation and control.

The following aspects **differentiate strategic control with operational control:**

(i) Strategic control is related to external environment while operational control is related to internal organization.
(ii) Strategic control has longest time horizon.
(iii) Control is exercised exclusively by top management in strategic control.

(iv) Budget schedules and MBO are used in operational control.

1.6 APPROACHES TO CORPORATE MANAGEMENT

Corporate management systems vary from organization to organization depending on a variety of factors: environmental conditions, organizational size and complexity, age, top management values and styles. Variations in the corporate management systems across organization may be found first in the top management's basic approach to carry on corporate planning. These approaches are as follows:

Top down Approach- In this approach, the top management decides everything and the implementation is being taken care of by the middle and lower level management as instructed by top management.

Bottom up Approach- This approach takes into account the realities and complexities of operations at the ground level. The top management adopts an open door approach. Suggestions are invited from all levels.

Hybrid Approach- This is a combination of top down and bottom up approaches which is generally used in decentralized companies. There is vertical communication between top management and the Strategic-Business Units (SBUs) at different phases of the corporate planning and implementation process.

Team Approach- Where lateral communication between the top managers is easier. The chief executive may himself in collaboration with senior managers, prepare corporate plans.

Activity 3

1) What are the methods of resource allocation?

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2) Explain Hybrid approach and team approach in corporate management.

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3) Distinguish main points of difference between strategic control and operational control.

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1.7 STRATEGISTS AND THEIR ROLE IN CORPORATE MANAGEMENT

Strategists are individuals or groups who are primarily involved in the formulation, implementation and evaluation of strategy. There are persons outside the organization who are also involved in various aspects of corporate management. In this section, we shall assess their role in corporate management:

Board of Directors

The role of the board of directors has come under intense scrutiny in recent times leading to the emergence of the issue of corporate governance. It relates to the functioning of the board of company and the conducting of the business internally and externally. The composition of Board of Directors in some of the organizations is narrated below:

State Bank of India	7 Whole time Directors 4 Part time Directors 6 Nominee Directors
Larson & Toubro Ltd.	6 Whole time Directors 11 Part time Directors
TISCO	2 Nominee Directors 2 Whole Time Directors 9 Part Time Directors
Reliance Industries Ltd.	5 Whole time Directors 4 Part time Directors 2 Nominee Directors

The Companies Act, 1956 specified the following:

(i) One-third of directors will retire by rotation.
(ii) A public limited company must have at least three directors and a private limited. company must have at least two directors.
(iii) Only individuals and not the institution, can be appointed as directors.

The role of the board is to guide the senior management in setting and accomplishing objectives, reviewing and evaluating organizational performance and appointing senior executives.

Chief Executive Officer

The CEO is designated as the managing director, executive director, president or general manager in business organization. As the chief strategist, the CEO plays a major role in strategic decision making with the increase in size. Many companies have adopted the practice of sharing the responsibility of chief executive among two or more persons. In India, Reliance Industries has chairman, vice- chairman and managing directors while L&T has managing director and joint managing directors. ITC Ltd. has a multiple executive system in the form of corporate management committee. Attributes like self management and time management are very important for CEOs.

Entrepreneurs
The entrepreneurs always search for change , respond to it and explicit it as an opportunity. The entrepreneur is a venture capitalist. They play a proactive role in strategic management. As initiators, they provide a sense of direction to all concerned. S. Kumar Sundram as the chairman of the Bank of Madurai Ltd., and after his death in 1986, the new chairman S.V. Shanmugavadivelu provide an excellent example of the role of entrepreneurs as strategists.

SBU level Executives
In corporate management, SBU level strategy formulation and implementation are the primary responsibilities of the SBU level executives. They act as divisional heads. They weild considerable authority within the SBU while maintaining coordination with other SBU heads and corporate level management.

Consultants
They assist the organizations in their corporate management process. Smaller organizations may take the benefit of consultants for improving their corporate governance. A.F. FerguSon, S.B. Billimoria, Mckinsey Company, Anderson Consulting etc. are the notable consultants. Boston Consulting helps in building competitive advantage while KPMG Peat Maruick assist in strategic financial management and feasibility studies.

1.8 NEED FOR CORPORATE MANAGEMENT

The following factors have forced the strategists to look into issues of corporate management:

(i) Scarcity of Resources
(ii) Fast Technological Changes.
(iii) Changing Human Values
(iv) Multiplicity of Stake holders.
(v) Growing Competition
(vi) Liberalization, Privatization and Globalization
(vii) Growing scale of business operations
(viii) Faster and Quicker Modes of Transportation and Communication
(ix) Professionalisation in Management

1.9 CORPORATE MANAGEMENT IN NON BUSINESS ORGANIZATIONS

The basic objective of non-business organizations is to provide service to the people who come in contact with these organizations. Unlike the business organizations which are characterized by profit motive, risk bearing and creation of utilities, non business organizations provide service to the clients. Measurement of the effectiveness of these services is highly qualitative and therefore judgmental. The following are the specific areas where corporate management issues are to be taken with greater care:

(i) Non business organizations are not interested in attracting large number of clients. Such organizations do not go for rigorous environmental analysis.
(ii) Non- business organizations have larger number of interest groups. In this environment, the corporate management process becomes more political. The decision outcomes may not be as service oriented as is usually conceived.
(iii) Non business organizations seldom go through the rigour of strategic management process. They get their resources from the public. They operate on the basis of non focused strategic actions.
iv) The performance evaluation criteria in case of non-business organizations is highly qualitative and therefore judgmental.

Activity 4

i) Critically evaluate the role of Board of Directors in corporate management.
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(ii) State three important factors forcing the immediate need of corporate management.
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1.10 SUMMARY

Corporate management is a broad phenomenon and covers the activities of corporate planning, implementation of corporate plans, evaluation and control of corporate plans. The concept of corporate management has moved through the stages of adhocism, planned policy, environment strategy interface and corporate planning. Corporate management has the following broad characteristic.

- encompassing entire management process
- short term as well as long term
- all pervasive, integrative and relates to all levels of management
- concerned with coping uncertain future with active intervention.

Corporate planning is a way of keeping the company's eyes open. It is a comprehensive planning process which involves continued formulation of objectives and the guidance of affairs towards their attainment. This process is continuous and is carried on by top management. The process involves the following steps:

- Formulation of strategic intent
- Environmental appraisal
- Generation of strategic alternatives
- Evaluation of alternatives
- Decision in terms of corporate plan

In India, corporate planning could not bring desired results. Factors like poor participation, complicated process, part time interest, domination of routine issues bring bottlenecks to effectiveness in corporate planning process.

Implementation refers to those activities which are necessary for achieving the plans already formulated. This administrative task is based on action and decision making. The issues like project, procedure, structure, resource allocation, behavior and managerial functions need special attention.

Review and evaluation of corporate plan operate at two levels i.e. strategic control and operational control. Budgets, schedules and MBO are used in operational control. Four types of strategic control are premise, implementation, strategic surveillance and special alert control.

Variations in the corporate management systems may be top down approach, bottom up approach, hybrid approach and team approach. Board of Directors, Chief Executive officer, Entrepreneurs, SBU level executives and consultants play an important role in corporate management process. Scarcity of resources, fast technological changes, LPG, changing human values etc. are forcing the strategists to push the case of effective

corporate management. Non business organizations have to adopt a distinct corporate management process to cope up with the changes in the emerging environment.

1.11 KEY WORDS

Corporate Management- It includes corporate planning, implementation and evaluation.

Corporate Planning- is a continuous process of making entrepreneurial decisions systematically and with the best possible knowledge of their future, organizing systematically the effort needed to carry out these decisions.

Implementation- refers to those activities which are necessary for achieving the plans already formulated.

Strategic Control- is aimed at a continuous assessment of the changing environment to see that the strategy is not out of line with it.

Operational Control- is directed towards the evaluation of real time action.

Hybrid Approach- A combination of top down and bottom up approach of corporate management.

1.12 SELF ASSESSMENT QUESTIONS

1. What is corporate planning and what are its important characterstics?
2. "Corporate planning is as good as its implementation" Discuss.
3. What is corporate management? Discuss its nature and scope.
4. Explain the benefits and failures of corporate planning.
5. Narrate corporate planning process in brief. Also state the benefits of corporate planning.
6. Explain various types of implementation issues in brief.
7. What is behavioral implementation? Explain it with the help of the details of a company.
8. What is strategic control? How is it different from operational control?
9. Narrate briefly the approaches to the corporate management. Which one is the best in Indian environment?
10. Critically evaluate the role of board of directors in corporate management process.
11. Write a note on corporate management in non- business organizations.
12. Write notes on the following:
    a. Procedural implementation
    b. Role of consultants in corporate management
    c. Approaches to corporate management.

1.13 FURTHER READINGS

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